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A Fair Numbers- and Capacity-Based Universal Service Contribution Methodology (CC Docket No. 96-45)

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Federal Communications Commission

by
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Contribution Methodology Reform Principles

- Consistent with section 254(d) of the Act, the FCC's universal service contribution methodology should:
  - Ensure that all providers of interstate telecommunications contribute on an equitable and nondiscriminatory basis;
  - Ensure that individual consumer groups do not bear an unreasonable and unfair share of contribution obligations;
  - Minimize opportunities for telecommunications providers to avoid contribution obligations; and
  - Minimize administrative burdens and/or costs for contributors.

The Time Has Come to Reform the Contribution Methodology

- As the FCC has recognized, the current interstate telecommunications revenue-based contribution system is increasingly incompatible with the emerging multi-dimensional telecommunications market.
- Accelerating consumer demand of IP-enabled, broadband, and other information services that operate without regard to jurisdictional boundaries places the current universal service contribution system at risk – especially going forward.
- Information service provider self-identification (by, for example, prepaid calling card providers) also is placing the contribution base at risk.
- These changes are resulting in a universal service contribution base that will continue to decline in the foreseeable future.
- CTIA, therefore, now supports a numbers- and capacity-based universal service contribution methodology.

Any Numbers/Capacity-Based System Must Be Fair to Carriers <u>and</u> Consumers

- The FCC should make sure a numbers- and capacity-based system achieves the principles listed above and actually stops contribution base declines.
- Assessments for residential, single line-business, and mobile wireless numbers:
  - Should address the concerns of low revenue per unit customers and customers without formalized billing relationships with their carriers (*e.g.*, wireless "family" share plans, wireless month-to-month customers, wireless prepaid customers);
- Assessments for non-switched connections:
  - Should not be regressive, *i.e.*, capacity tiers and multipliers should not provide <u>unfair</u> advantages for purchasers of higher-capacity connections;
  - Should not provide special, unjustified discounts to certain categories of connections, *e.g.*, centrex connections/numbers should not be provided discounts.
- Only actual subscriber telephone numbers (*i.e.*, "working" numbers) or functional equivalents should be assessed.

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- All switched connections should be assessed based on working telephone numbers and non-switched connections should be assessed based on capacity units.
- Numbers associated with switched connections should be assessed one unit, equivalent to the lowest capacity tier. Special cases:
  - Wireless "Family" Plans: If any plan offers an "extension" number off of the same bucket of minutes, then assessment of all but the primary number should be discounted by 50%.
  - Month-to-Month Wireless Customers: Month-to-month (*i.e.*, never on a long-term contract) wireless customer numbers should be discounted by 50%.
  - Prepaid Wireless: Prepaid wireless customer numbers should be discounted by 50%.
  - Broadband: Residential, single-line business, and mobile wireless broadband services associated with a number should not be separately assessed.
  - Low-Income: No assessment for Lifeline customer numbers.

A Fair Numbers- and Capacity-Based Contribution Methodology (cont'd)

- Only actual subscriber telephone numbers (*i.e.*, "working" numbers) or functional equivalents should be assessed. A number shall be considered a working telephone number if it is assigned to a specific end-user customer and it provides the ability to receive calls.
- Non-switched connections should be assessed in a manner consistent with the capacity tiers (and units) proposed in the FCC's *2002 Second FNPRM* (*i.e.*, which attempt to reflect how customers of different categories of non-switched connections value the services they purchase).
  - The FCC would adopt its proposed definitions for "connections" and "capacity."

A Fair Numbers- and Capacity-Based Contribution Methodology (cont'd)

- Carriers without working numbers or end-user connections should continue contributing based on their interstate telecommunications revenues. Only annual revenue reporting should be required and on a significantly simplified FCC Form 499-A (similar to the current FCC Form 499-Q).
- USAC should transition to the new system over a period of no more than 12 months (*e.g.*, complete the transition by January 2007), collecting numbers and capacity data for at least two calendar quarters prior to implementation of the new system. The transition should be the same for all contributors.
- Once the transition is complete, quarterly revenue reporting should end.
- Capacity tiers should be revisited at intervals of no greater than 3 years.
- Contributors should continue to have flexibility to recover contribution costs from their end-user customers (*e.g.*, through line-items or service-related charges).

Conclusion

- CTIA's numbers- and capacity-based proposal addresses:
  - The need for a sustainable and predictable universal service contribution base; AND
  - The legitimate concerns of low volume and/or low average revenue per unit customers.
- CTIA's proposal will ensure that all providers of interstate telecommunications, including wireless carriers, contribute on an equitable and nondiscriminatory basis.
- No consumer group, including wireless, will gain an unreasonable or unfair advantage as a result of CTIA's proposal. Likewise, no group will be unfairly disadvantaged.
- CTIA's proposal also will minimize administrative burdens and/or costs for contributors.